

**CITY OF MELVIN, IOWA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON THE STATUS OF PERIODIC EXAMINATION**  
**FINDINGS AND RECOMMENDATIONS**  
**FOR THE PERIOD**  
**DECEMBER 1, 2015 THROUGH MAY 31, 2016**

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## Officials

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Name	Title	Term Expires
<b>(Before January, 2016)</b>		
<b>Elected Officials</b>		
Becky Heitritter	Mayor	December 31, 2015
Mike Alesch	Council Member	December 31, 2017
Amy Baker	Council Member	December 31, 2015
Galen Bootsma	Council Member	December 31, 2017
Tim Drenkow	Council Member	December 31, 2015
Michael Wynja	Council Member	December 31, 2017
<b>Appointed Officials</b>		
Sandy Heitritter	City Clerk/Treasurer	Indefinite
<b>(After January, 2016)</b>		
<b>Elected Officials</b>		
Gary Benz	Mayor	December 31, 2017
Mike Alesch	Council Member	December 31, 2017
Amy Baker	Council Member	December 31, 2019
Galen Bootsma	Council Member	December 31, 2017
Paul Heitritter	Council Member	December 31, 2019
Michael Wynja	Council Member	December 31, 2017
<b>Appointed Officials</b>		
Jennifer Douma	City Clerk/Treasurer	Indefinite

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# HOGAN • HANSEN

*A Professional Corporation*

Certified Public Accountants and Consultants

## **Independent Accountant's Report on the Status of Periodic Examination Findings and Recommendations**

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To the Honorable Mayor and  
Members of the City Council  
City of Melvin, Iowa

Hogan - Hansen, P.C. issued a Periodic Examination Report dated September 16, 2014 on the City of Melvin, Iowa, covering the period July 1, 2013 through June 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 16, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate that the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Melvin and other parties to whom the City of Melvin may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Melvin during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
September 23, 2016

## **Status of Periodic Examination Findings and Recommendations**

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## Status of Periodic Examination Findings and Recommendations

### Findings Reported in the Periodic Examination Report Dated September 16, 2014:

(A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- Accounting system - performing all general accounting functions, including journal entries and having custody of assets.
- Cash - handling, reconciling and recording.
- Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- Debt - recordkeeping, compliance and debt payment processing.
- Journal entries - preparing and journalizing.
- Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- Payroll - entering rates into the system, recordkeeping, preparing, signing and distributing.
- Computer system - performing all general accounting functions and controlling all data input and output.
- Financial reporting - preparing and reconciling.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidence by the signature or initials of the reviewer and the date of the review.

**Current Status - Not corrected. The recommendation is repeated.**

(B) City Council Minutes - The following were identified:

- Chapter 21.3 of the Code of Iowa requires minutes of all City Council meetings to show the results of each vote taken and information sufficient to indicate the vote of each member present. Minutes for four of the meetings tested did not show sufficient information to indicate the vote of each member present.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City proceedings to include the total disbursements by fund. Minutes for four of the meetings tested did not include the total disbursements by fund.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within 15 days of the meeting. In the four meetings tested, none of the meetings were published within 15 days after the meeting.

## Status of Periodic Examination Findings and Recommendations

Recommendation - The City should comply with Chapter 21.3 of the Code of Iowa and document sufficient information to indicate the vote of each member present. The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes within 15 days of the meeting and include total disbursements from each fund.

**Current Status - Partially corrected. All four meeting minutes tested included sufficient information to indicate the vote of each member present. However, two of the four meeting minutes were not published within 15 days of the meeting. In addition, all four meeting minutes tested did not include a summary of disbursements by fund or a reason for each claim paid. The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes within 15 days of the meeting and include total disbursements from each fund as well as the reason for each claim paid.**

- (C) Bank Reconciliations - The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. However, for the month reviewed, bank and book balances did not properly reconcile by \$14.06 because outstanding checks were not recorded in the City's general ledger.

Recommendation - The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely.

**Current Status - Partially corrected. For the month reviewed, bank and book balances were properly reconciled. However, the bank reconciliation did not include evidence of review by an independent person. The City should establish procedures to ensure bank reconciliations are reviewed by an independent person and the reviews should be documented by the signature or initials of the reviewer and the date of the review.**

- (D) Official Depositories - Although a resolution naming official depositories has been adopted by the City Council, the resolution did not include a depository amount as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

**Current Status - Corrected. The City Council passed and approved a Depository Resolution on January 4, 2016, which superseded the previous Depository Resolution approved on October 6, 2014.**

- (E) Investment Policy - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

**Current Status - Corrected. The City Council adopted an Investment Policy on October 6, 2014.**

## Status of Periodic Examination Findings and Recommendations

- (F) Journal Entries - There was no evidence to document that general ledger journal entries are being reviewed and approved by an independent individual.

Recommendation - An independent person should review and approve general ledger journal entries. Approval should be documented by signing or initialing and dating the journal entries.

**Current Status - Not corrected. The recommendation is repeated.**

- (G) Annual Financial Report - The City's Annual Financial Report receipts, disbursements and fund balances do not reconcile with the City's general ledger.

Recommendation - The City should ensure future Annual Financial Reports agree with the City's general ledger.

**Current Status - Partially corrected. Disbursements reported in the City's Annual Financial Report for the year ended June 30, 2015 agreed with the City's general ledger. However, reported receipts and fund balances did not reconcile to the City's general ledger. The recommendation is repeated.**

- (H) Receipts - During our testing of revenue received from the state, we noted a receipt for county road assistance had been incorrectly recorded as road use tax.

Recommendation - The City Clerk should receipt revenue into the proper funds and reconcile to the State of Iowa's records at year end.

**Current Status - Not corrected. During our testing of revenue received from the state, we noted a receipt for county road assistance that had been incorrectly recorded as road use tax receipts. The recommendation is repeated.**

- (I) Financial Condition - As of June 30, 2013, the City had a deficit balance of \$4,957 in the Employee Benefits Fund.

Recommendation - The City Clerk should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

**Current Status - Not corrected. We noted the Employee Benefits Fund and Road Use Tax Fund had deficit balances. The recommendation is repeated.**

- (J) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Steve Heitritter, Council Member, owner of Melvin Rebuilders	Vehicle repairs	\$ 3,527
Gary Benz, former Mayor, owner of Benz Insurance	Insurance coverage	11,900



## Status of Periodic Examination Findings and Recommendations

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation - The City should consult with legal counsel to determine the disposition of this matter.

**Current Status - Not corrected.** During the fiscal years ended June 30, 2015 and 2016, we noted that the City paid Benz Insurance \$13,202 and \$13,182, respectively. Benz Insurance is owned by the current Mayor, Gary Benz. In addition, we noted that the City paid Melvin Rebuilders \$4,765 during the fiscal year ended June 30, 2016. Melvin Rebuilders is owned by former Council Member Steve Heitritter. Steve is also the spouse of former City Clerk Sandy Heitritter. These transactions may represent a conflict of interest since total transactions were more than \$2,500 during a fiscal year and the transactions were not competitively bid. The recommendation is repeated.

- (K) Disbursements - Invoices and other supporting documentation were not always available to support disbursements. Of the 30 disbursements tested, there were 4 disbursements which we were unable to obtain an invoice or supporting documentation from the City but were able to obtain needed information from the vendor.

Recommendation - The City should keep invoices or other supporting documentation for all disbursements.

**Current Status - Not corrected.** Of the 15 disbursements tested, the City was unable to provide an invoice or supporting documentation for 3 disbursements. The recommendation is repeated.

- (L) Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Current Status - Not corrected.** Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the Public Safety and General Government functions prior to amendment. The recommendation is repeated.

- (M) Payroll - The City Council approves each monthly pay check; however, the City Council has not authorized wage rates for several years.

Recommendation - The City Council should annually approve and document the specific hourly rate or salary of all City employees.

**Current Status - Not corrected.** The recommendation is repeated.

## Status of Periodic Examination Findings and Recommendations ---

- (N) Form 1099 - The City did not issue any Form 1099's for calendar year 2013; however, there was not sufficient documentation maintained to determine if the City should have issued any Form 1099's.

Recommendation - The City should maintain proper documentation to determine compliance with filing Form 1099's is followed.

**Current Status - Not corrected. The recommendation is repeated.**